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BRACEROS, MEXICO, AND FOREIGN TRADE.

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CRITICISM OF GOVERNMENTAL POLICY RESTRICTING USE OF FOREIGN CONTRACT WORKERS ON AMERICAN FARMS IN 1965 EXPRESSES THREE POSSIBILITIES -- (1) A SEVERE DISRUPTION OF DOMESTIC FRUIT AND VEGETABLE PRODUCTION, (2) AN INCREASE OF AMERICAN INVESTMENT IN FOREIGN, PARTICULARLY MEXICAN, AGRICULTURAL PRODUCTION, AND (3) A LOSS OF UNITED STATES EXPORT MARKET TO FOREIGN PRODUCERS. TOTAL PRODUCTION, HOWEVER, WAS NOT SIGNIFICANTLY LOWER IN 1965 THAN IN 1964, AND ONLY A FEW GROWERS MOVED THEIR OPERATIONS TO MEXICO OR MADE OTHER ARRANGEMENTS TO PRODUCE IN THAT COUNTRY. THE VALUE OF TOTAL FRUIT AND VEGETABLE EXPORTS INCREASED WHILE THE BALANCE OF TRADE IN FRUIT AND VEGETABLES CONTINUED FAVORABLE. FRUIT AND VEGETABLE EXPORTS IN 1965 WERE VALUED AT $468.4 MILLION OF WHICH FRESH ORANGES, CANNED PEACHES, DRIED BEANS, FRUIT COCKTAIL, DRIED PRUNES, GRAPES, APPLES, AND DRIED RAISINS ACCOUNTED FOR 44 PERCENT OF THE TOTAL. VEGETABLE EXPORTS DECLINED $2.7 MILLION TO $155.3 IN 1965 DUE TO LOWER SALES OF DRIED BEANS AND CANNED ASPARAGUS. SOME MEXICAN IMPORTS INCREASED DURING 1965--(1) TOMATOES, 8 PERCENT, (2) MELONS, 17 PERCENT, AND (3) FROZEN STRAWBERRIES, 30 PERCENT, BUT THESE GAINS REFLECTED INFLUENCES OTHER THAN LACK OF BRACERO LABOR IN THE UNITED STATES. THE END OF THE BRACERO PROGRAM HAS NOT RESULTED IN A LARGE SCALE MOVEMENT OF AMERICAN FARMERS TO MEXICO OR A SIGNIFICANT LOSS OF MARKET TO FOREIGN COMPETITORS. HOWEVER, PATTERNS OF PRODUCTION AND MARKETING MAY CHANGE IN COMING YEARS DUE TO THE TERMINATION OF FOREIGN LABOR AND OTHER FACTORS. THIS DOCUMENT APPEARED IN "FARM LABOR DEVELOPMENTS," JULY 1966. (WB)

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Throughout 1965, critics of the tightened restrictions on the use of foreign contract workers on American farms held that this policy would lead to a severe disruption of fruit and vegetable production and that this disruption would have serious implications for American foreign investment and foreign trade. Their criticism took three forms.

First was the possibility that many growers, now unable to bring Mexican workers into the United States, would themselves go to Mexico where labor is abundant and cheap. Money heretofore spent in the United States on land, wages, and other productive resources would now be spent in Mexico, bolstering the economy there rather than here.

Second was the possibility that, whether or not American farmers went to Mexico, the decline in production here would lead to an increased demand for Mexican fruits and vegetables. U.S. producers, handicapped by the policies of their own government, would lose out to competitors across the border.

Third was the possibility that growers, crippled by labor shortages, would be unable to fill orders from abroad. U.S. export markets, essential in resolving balance of payments problems, would be lost to foreign producers.

Production was not significantly lower in 1965 than it had been in 1964. Acreage cutbacks in areas where braceros had formerly constituted a major part of the work force were often offset by increases in other parts of the country. Those labor shortages which did develop were less severe than growers had predicted, and the total of crop losses that might reasonably be attributed to a lack of workers was less than one-half of one percent of the 1965 value of those crops on which foreign workers had been employed in 1964. Similarly, there was no overall price rise. The Consumer Price Index (1957-59=100) for fruits and vegetables was 115.2 in 1965. In 1964 it had been 115.3. (Nearly two-thirds of all the foreign workers employed in 1964 had been employed in the production of fruits and vegetables).

A few growers moved their operations to Mexico or made other arrangements to produce in that country in 1965, but the consensus among American producers in Mexico seems to be that exports to the U.S. are profitable, generally, only during the U.S. off season or when a product is in short supply. Fruit and vegetable imports from Mexico, although about 5 percent greater than in 1964, continued to be relatively small compared with total U.S. production. Frozen strawberry imports from Mexico were 28 percent as high as U.S. production; fresh tomatoes, 13 percent; melons, 5 percent; and oranges, less than 1 percent. The value of U.S. fruit and vegetable exports was higher, by about $30 million, than in 1964.

Source: Farm Labor Developments, July 1966.

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Movement to Mexico

An American grower may produce in Mexico through buying or leasing land in that country, through entering into an agreement with Mexican producers, through investing in a Mexican firm, or through establishing a Mexican subsidiary of an American firm.

A physical shifting of operations from the U.S. to Mexico is generally impractical, although a California cherry-tomato grower is reported to have done this. Foreigners are prohibited from owning land in Mexico within 62 miles of the frontier, and there are limitations on foreign ownership of land elsewhere. If the operation is large enough to require many seasonal workers, buying land, erecting buildings, and moving equipment will be expensive and time-consuming. Private property in Mexico which exceeds certain size limits is subject to the risk of expropriation, 1/ although this risk is not, at present, considered to be great.2/ The maximum limits for private holdings not subject to expropriation are as follows:

irrigated or humid land . . .	250 acres per person
nonirrigated land	500 acres per person
land in fruit trees	740 acres per person

Transportation costs, tariff duties, border crossing fees, and brokerage fees usually offset any savings in labor costs a U.S. grower might realize from producing in Mexico. 3/ In general, the difficulties a grower would encounter in moving his operation would be out of proportion to his problems in finding labor in the United States. An individual might still elect to move to Mexico, but his reasons would almost certainly also involve considerations other than labor supply.

1/ See "Land Redistribution in Mexico," Economic Research Service, ERS-Foreign-39, U.S. Department of Agriculture, August, 1962.

2/ Katherine E. Rice, "Establishing a Business in Mexico," Bureau of International Commerce, Overseas Business Report 64-82, U.S. Department of Commerce, July 1964, p. 5.

3/ Report prepared by staff of Subcommittee on Department of Agriculture and Related Agencies Appropriations of the House of Representatives Committee on Appropriations and published in "Hearings on the Department of Agriculture Appropriations for 1967," 1966, Part III, p. 679.

There has been a considerable amount of American capital invested in the production of tomatoes, melons, and strawberries, and somewhat less in the production of citrus. Most of the Mexican fruits and vegetables, with the exception of citrus, that enter this country through Texas are, to some degree, American owned. 4/ Most of the frozen strawberries imported and about half of the cantaloupes enter through Texas. Only a few Americans are engaged in the direct production of the other fruits and vegetables imported, which enter the U.S. through Nogales, Arizona. However, most of the Mexican growers who export through Nogales receive financial and marketing assistance from U.S. brokerage firms in that city. The rate of U.S. investment in Mexican fruits and vegetables has been increasing, but the increase has been going on over a number of years and the proportion that can be attributed specifically to the termination of the bracero program is more or less conjecture at this time. 5/

No information has been developed to indicate that any U.S. processor has established a foreign operation in Mexico or elsewhere as a result of the curtailment of the foreign-worker program in 1965. 6/ Several American firms, including the H. J. Heinz Company, the California Packing Corporation, the Pet Milk Company, and the Campbell Soup Company, have opened food processing plants in Mexico in recent years. Their investments appear to represent an expansion of operations rather than a transfer from one place to another. The Mexican government imposes high duties on canned food imports into that country, and U.S. firms wanting to sell in the Mexican market have found it desirable to buy into existing food packing companies or to build new plants in Mexico. Conditions in Mexico are favorable for foreign investment. Politically, it is one of the most stable countries in Latin America. Economically, it is progressing at a rapid pace, presenting the prospect of an expanding consumer market. The Mexican government does not impose controls on foreign exchange operations; and capital, profits, and dividends may be readily transferred to and from Mexico. 7/

4/ Ibid.

5/ American Embassy, Mexico, March 1966. See also, "Mexico Expanding as Supplier of Winter Vegetables; Citrus Could Be Next; Processing in Future," Winston Goss, The Packer, December 25, 1965. Goss makes the point that an increasing number of West Coast Mexican growers have become wealthy enough to finance their operations without assistance from U.S. distributers and have been able to establish their own distributor offices in Nogales.

6/ House of Representatives "Hearings," op. cit., p. 680.

7/ Katherine E. Rice, op. cit., p. 3.

Imports

Fresh tomatoes are the most important fruit or vegetable commodity imported from Mexico into the U.S. In calendar 1965, 265.5 million pounds, valued at $29.4 million, were brought into this country from Mexico. 8/ This quantity was 8 percent greater than imports in 1964 and the highest in the postwar period. Imports have been rising steadily since 1962. The import season runs from November through June, with nearly two-thirds of all shipments being made in March, April, and May. 9/ Over 95 percent of the American tomatoes shipped during these three months are shipped from Florida. Although about 1,000 British West Indians had worked in Florida tomatoes in 1964 and only 200 in 1965, production in the winter and early spring increased slightly over the previous year. Most of the braceros who have worked in California tomatoes have been employed in the fall processing crop.

Imports of Mexican melons, about three-fifths of them cantaloupes, rose by 17 percent from 1964 to 1965. They were valued at $9.0 million in 1965. Mexican cantaloupes enter this country from mid-March to mid-June. In 1965, about nine-tenths had been brought in by June 1, when production in Arizona and California was just getting started. 10/ Mexican cantaloupes were competitive, then, only with the Texas spring crop. Although 1,550 braceros had been used in Texas during the peak period (May 16-31) in 1964 11/ and none in 1965, Texas growers increased their production by 28 percent. 12/

Frozen strawberry imports, valued at $7.8 million in 1965, provided the best example for the argument that foreign competitors profited from labor shortages, anticipated and actual, in the United States.

8/ All figures on imports in this article, unless otherwise noted, are taken from "U.S. Imports for Consumption," U.S. Bureau of the Census, published series FT-125 and FT-110, unpublished tabulation IM-147, U.S. Department of Commerce.

9/ "Florida Vegetables," Tomato Reports Nos. 1 through 44, August 1964 through June 1965, Florida Crop and Livestock Reporting Service, Orlando, Florida.

10/ "Marketing Yuma Valley Cantaloupes," Federal-State Market News Service, Arizona Fruit & Vegetable Standardization Service, July 1965.

11/ Special Farm Labor Reports, "Cantaloupes - Spring" U.S. Department of Agriculture, Statistical Reporting Service, Austin, Texas 1965.

12/ "Vegetables - Fresh Market," 1965 Annual Summary, U.S. Department of Agriculture, Statistical Reporting Service, Washington, D.C., December 1965.

Imports increased by 30 percent (12 million pounds), and the frozen pack in California declined by 20 percent (20 million pounds). 13/ California growers planted 700 fewer acres than in 1964 and labor shortages did develop (Japanese, Filipino, and Mexican workers were authorized to work in strawberries). It should be pointed out, however, that 1965 was an umusual year. The principal strawberry area in California experienced one of the heaviest April rainfalls on record, followed by a freeze which was, in turn, followed by very warm weather. Many acres of berries ripened at the same time, thereby boosting labor requirements. Workers recruited earlier became discouraged by low earnings during the rains and moved on to other activities. Even without these umusual circumstances, frozen strawberry imports would probably have risen sharply in 1965, as they have for several years. An even larger increase is expected for 1966.

Imports of Mexican oranges, which had gone up after the severe December 1962 freeze in Florida, declined as the Florida groves recovered. The 1964-65 total (the import season runs from September to June), valued at $4.3 million, was 23 percent smaller than that of the previous season. Sales of Mexican orange juice concentrate in the U.S. dropped from $3.2 million in calendar 1964 to $0.1 million in calendar 1965. The Mexican government has provided support for expanded citrus production to replace less profitable tropical fruits. Oranges are grown now in Mexico primarily for the internal market, but new outlets will be required when the young trees come into bearing. 14/ Planting is also being increased in Florida, and production there by 1975 may be double the average production of the past ten seasons. 15/

Exports

U.S. exports of fruits and vegetables in 1965 were valued at $468.5 million. 16/ The eight leading items (fresh oranges, canned peaches, dried beans, fruit cocktail, dried prunes, grapes, apples, and dried raisins), each valued at more than $20 million, together accounted for 44 percent of the total.

13/ "Marketing California Strawberries, 1965 Marketing Season," Federal-State Market News Service, California Department of Agriculture, June 1966.

14/ Foreign Agriculture, Foreign Agricultural Service, U.S. Department of Agriculture, December 13, 1965.

15/ "DARE Report," University of Florida, Institute of Food and Agricultural Sciences, Gainesville, Florida, 1966, p. 16.

16/ Figures on U.S. exports are taken from various issues of Foreign Agricultural Trade of the United States, Economic Research Service, U.S. Department of Agriculture.

Fruit exports rose 12 percent ($34.5 million) to a record high of $313.1 million. Fresh and processed citrus (+$7.5 million), dried prunes (+$5.6 million), grapes (+$3.5 million), and apples (+$3.4 million) together accounted for nearly three-fifths of the increase. Canned pineapple was the only fruit export to decline in value by more than $1 million (-$1.1 million). The outlook for fruit exports, especially perishable items, has been enhanced by reductions in international air freight cargo rates and by the development of refrigerated containers. 17/ On the other hand, competition is increasing. A number of countries which are now U.S. markets are working toward self-sufficiency, and other suppliers are becoming capable of offering strong price competition to U.S. producers. 18/ Mexican suppliers of frozen strawberries to Canada, for example, increased their share of the Canadian market from 42 percent in 1960 to 61 percent in 1965 while the U.S. share dropped from 39 percent to 14 percent. 19/ The value of U.S. frozen strawberry exports to Canada, however, was higher in 1965 than in any other year since 1961.

Vegetable exports declined by $2.7 million to $155.3 million in 1965. This decrease was due to lower sales of dried beans (-$4.1 million) and canned asparagus (-$3.1 million). Prospects are mixed for the 1966 season. Exports to Canada, the principal buyer of U.S. vegetables, are likely to continue the upward trend of recent years, but handling problems are likely to curtail expansion of fresh vegetable trade with Europe. 20/

The value of fruit and vegetable exports, overall, increased from 1964 to 1965 and the balance of trade in fruits and vegetables, exports minus imports, continued to be favorable (+$67.5 million). If the value of imports complementary to U.S. production, such as bananas, is subtracted from the total import figure, the balance of trade in fruits and vegetables was more favorable to the U.S. in 1965 than it had been in 1964.

All of the effects of the end of the bracero program will be manifest in one year. Patterns of production and marketing may change in coming years due to this as well as to other factors. Nevertheless, on the basis of information now available, it appears that the end of the bracero program has not led to a large-scale movement to Mexico or to a significant loss of markets to foreign competitors.

17/ Foreign Agriculture, February 14, 1966.

18/ Foreign Agriculture, November 8, 1965.

19/ "Marketing California Strawberries," op. cit.

20/ Talk given by Donald S. Kuryloski, Economic Research Service, U.S. Department of Agriculture, at the 43rd Annual Agricultural Outlook Conference, Washington, D.C., November 17, 1965.